



the

COMMONWEALTH

Richmond District Office

<http://www.sba.gov/regions/states/>

October, 1999

A Message from... the District Director

The Richmond District Office of the Small Business Administration has just completed Fiscal Year 1999. Once again our resource partners including lenders, the Service Corps of Retired Executives, Virginia Small Business Development Center, chambers of commerce and many other business development organizations have contributed to another successful year for SBA and the small businesses we serve.

FY 99 was a banner year for the SBA. Not only did we guarantee loans for more of Virginia's small businesses than ever before but we also inaugurated our first statewide lenders conference. Our annual SBA awards luncheon attracted almost 1000 guests and featured an address by Gov. Gilmore who championed SBA's efforts in providing assistance to Virginia's small businesses.

FY 2000, which began on October 1, presents new challenges to the SBA and those we serve. We must find ways to allow more of our citizens to participate in this magnificent economy that the county is now enjoying. The key to our efforts will continue to be the partnerships that we develop.

Thanks to all of you who contributed to a successful year.

Charles Gastón
District Director

FY 99 Lending Results

TOP LENDERS

<u>MAJOR BANKS (OVER \$500M IN ASSETS)</u>	<u># of Loans</u>
Bank of America	71
Wachovia Bank	28
Crestar Bank	16

<u>COMMUNITY BANKS (UNDER \$500M IN ASSETS)</u>	<u># of Loans</u>
Southern Financial Bank	43
Resource Bank	32
Commonwealth Bank	21

<u>NON-BANK LENDERS</u>	<u># of Loans</u>
The Business Loan Center	38
First Union Small Business Capital	21
Newcourt SBLC	14

<u>CERTIFIED DEVELOPMENT COMPANIES</u>	<u># of Loans</u>
Virginia Asset Financing Corp.	45
Tidewater Business Financing Corp	27
James River Development Corp.	12

<u>MOST IMPROVED LENDERS—(5 or more loans, FY 99 vs. FY 98)</u>	
Wachovia Bank	Up 133%
The Business Loan Center	Up 111%
B B & T of Virginia	Up 43%

<u>TOP MICROLENDERS</u>	
Virginia Community Development Loan Fund	16
People Incorporated of Southwest Virginia	13
Richmond Economic Development Corporation	5

<u>TOP PreQual Intermediaries # of PreQuals successfully obtaining loans</u>	
Longwood SBDC (all branches)	6
SBDC of Hampton Roads, Inc.	5
Virginia Highlands SBDC	5

RICHMOND D.O. FY 99 RESULTS

	<u>GOAL</u>	<u>RESULTS</u>
Total Loans	804	659
Minority Loans	144	161
African American-owned	75	79
Hispanic-Owned	13	13
Asian-Owned	52	65
Native American-Owned	4	5
Women Loans	239	195
Veteran Loans	146	102
Export Working Capital Loans	4	6

Richmond D.O. has "Banner" Year

FYE 1999 lending results are in, and the Richmond District Office came in tied for 1st in Region III. Out of 9 lending goals, RDO met or exceeded 6 and led the region in a 7th, loans to women. The two goals not met were total volume and loans to veterans (see lending summary). Out of 15 offices nationwide that are in the same size category, RDO came in tied for 2nd.

Overall, volume was up 32 loans, or 5% over last year. This is particularly impressive considering that our two largest lenders in 1998 realized a decline of 78 loans this year. Because of our marketing efforts, 25 new banks are participating with SBA and 25 other banks have increased their volume.

During the past year, we have stressed customer service by becoming more responsive to lenders and by being more flexible and innovative in making deals work. We are committed to being the very best resource that lenders and small businesses have to make sure that the phenomenal growth of the past few years is maintained.

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To that end, we will continue to bring our products and services to all areas of Virginia. In the past year, we have made unprecedented progress in delivery of our services to the rural communities and to "new market" groups. This commitment will continue through the new millennium. We approach the new century with excitement and antici-

pation and hope that next year we can report that RDO is #1 in the nation. With the cooperation and support of you, our lenders and resource partners, we know this can come true.

I would like to thank all of those who have assisted me and provided support during my first full year as ADD/ED. It has been a true learning experience and I hope that I have been able to make a difference to the lending community. Please continue to feel free to contact me directly with any problems or concerns that you may have with the marketing, finance and portfolio management divisions of the office at (804) 771-2400, ext. 141.

**Scott Dailey, Assistant District Director
for Economic Development**



SBA Virginia Lenders' Conference

Year 2000

May 10-12, 2000

At the Natural Bridge Inn & Conference Center

Mark your calendars *now* and plan to join us for three informative and fun-filled days. We are planning an agenda filled with relevant and informative topics recommended by last year's attendees. Entertainment will include a casino night, a live band, lots of food and drink, prizes and a few surprises! Don't forget all of the beautiful attractions at Natural Bridge including the bridge, caverns, and wax museum. Those of you who attended last year need no prompting! Gold and Silver Sponsorships are available. Contact Bill Gill, Resource Bank at (757) 222-2442.

Conference Committee Members:

Elise Weltman, Chairman, BDA/American Express
Becky Hall, Business Loan Center
Bill C. Gill, Resource Bank
Ric Heinemann, First-Citizens Bank
Ned Honts, Bank of Botetourt
Sally Robertson, Virginia Asset Financing Corp.
Jerry Medlock, Marshall National Bank

**We look forward to seeing all of you at the
Conference!**

Standby Debt as Equity!!

Often small businesses finance their needs through the use of loans, either from the owner/officers, from family members or through the use of personal debt. Although SBA looks for “sufficient invested equity” so that the business can “operate on a sound financial basis,” we also look for ways to help improve the tangible equity of the business.

SBA generally will not provide 100% financing. However, the amount of reasonable equity is considered on a case-by-case basis. One of the ways to help improve that “equity” position is to consider placing existing or other new debt on standby. **If a creditor agrees to a formal standby of payment of principal and interest until the SBA loan is paid in full, then it may be considered as equity.** Generally, however, the SBA will not allow all of the equity to come from standby debt of non-owners, especially with new businesses, changes of ownership or where there is substantial “goodwill.”

Almost always, owner debt should be put on standby to improve the business equity position. *In order to consider owner’s debt as equity and on standby*, the lender’s analysis should address the impact of non-repayment on the owner’s personal cash flow. If there is a specific personal obligation, such as a credit card or a bank loan, that is directly related to the business debt, the obligation “should normally be treated as debt, not equity.” However, on a case-by-case basis, if the lender’s analysis can justify the repayment of such side loans from the owner’s reasonable earnings from the business or outside income, then it also may be considered as equity.

Thus, in order to be considered as equity, debt **MUST** be placed on standby for the entire term of the loan, in both payment of principal and interest, and **MUST** also be subordinate in collateral position to the SBA debt.

Simply put, “the greater the debt of a business in relationship to the tangible net worth of the business, the lower the chances of success. “

Lender Fees

SBA requires disclosure of all fees that an applicant pays to or is charged by a lender or an Agent. The applicant uses SBA Form 159, “Compensation Agreement”, to disclose these fees, and must complete a separate form for each lender/agent.

An Agent is defined as “any authorized representative, including an attorney, accountant, consultant, packager, lender service provider or any other person representing an applicant, or participant by conducting business with SBA.”

“Fees which the Lender may collect from a loan applicant” are limited to **“service and packaging fees”**, which are reasonable and customary for this area. Lenders **must** advise the applicants, in writing, that they are not required to obtain or pay for unwanted services. If the lender does charge the applicant for services/packaging, then the applicant must execute SBA Form 159, and the lender should itemize the charges to the applicant

and maintain a copy in the lender’s loan file.

If the applicant utilizes the services of a packager or a lender service provider and is charged for packaging or other fees, then the lender **MUST** not charge for similar services.

Lenders may charge a commitment fee but these charges must be used to offset allowable costs associated with the loan and must be fully refundable to the applicant (except for reasonable costs incurred by the lender such as appraisals, lien searches, recording fees, surveys, and similar expenses.)

In addition, Lenders may **not charge** the applicant a **processing fee, origination fee, brokerage fee, application fee, prepayment fee, underwriting or management review fees, or charge points, add-on interest or default interest rates, or charge for legal services** (unless they are hourly charges for actual services).

PRE-QUALIFICATION LOAN PROGRAM

he concept of how to prepare a financing proposal has been challenging for many entrepreneurs. The SBA Richmond District Office has implemented a program to assist small business owners in obtaining necessary financing.

The Pre-Qualification Loan Program allows the borrower to submit their loan package to the SBA seeking a loan guarantee prior to taking their loan package to the bank. If the SBA feels that the loan application has merit, the SBA will issue a letter to the client identifying the terms under which the SBA would provide a loan guarantee. The client would then submit their loan package to the financial institution of their choice along with the SBA pre-qualification letter. This program has been operating throughout 1999.

The Virginia Small Business Development Center (SBDC), which is an SBA program, serves as the intermediary in assisting the borrower in preparing a loan package. The SBDC's mission is to provide entrepreneurs with individual management counseling and technical assistance services. The SBDC currently has 27 counseling locations throughout the state and is well equipped to participate in this program and assist both the borrower and the financial community.

The loan funds can be used for normal business purposes such as working capital, debt payment, equipment and inventory purchases, construction and improvements, and purchasing real estate.

The Pre-Qualification Loan Program is open to businesses owned at least 51% by women, minorities, veterans, and those located in rural areas. The maximum loan amount under this program is \$250,000. If a borrower currently has a SBA loan and the combined loans requested as a result of this program are more than \$250,000, the request is to be processed through the regular guaranty program.

VIRGINIA FIRM HONORED AS 1999 REGIONAL MINORITY SMALL BUSINESS PERSON OF THE YEAR

Ms. D. Jean Wu, President, of Integrated Management Services, Inc. (IMSI), of Woodbridge, Virginia, SBA Richmond District Office's 1999 Minority Small Business Person of the Year, was recently selected as one of the ten regional winners in the United States.

IMSI, a participant in SBA's 8(a) Business Development Program, specializes in smart and secure solutions for improving organizational effectiveness and ensuring protection of valuable corporate assets. Since founding IMSI in 1989, Ms. Wu has guided the company to revenue growth of over 4,649%, with an average annual growth of 106%. Revenues for 1999 will exceed \$10,000,000. The firm has turned a profit every year and is debt free.

Ms. Wu attributes much of IMSI's success to her dedicated staff and the "invaluable guidance, assistance and training received from the SBA in marketing, strategic planning, proposal preparation, and procurement opportunities."

On September 22, 1999, Ms. Wu was formally honored at the Minority Enterprise Development Week National Conference in Washington, D. C.

SCHEDULE OF UPCOMING MED/GC EVENTS

October 27th – The Procurement & Technical Assistance Center in Grundy, VA is sponsoring a Procurement Seminar that will include presentations on the HUBZone Empowerment Contracting Program and the Small & Disadvantaged Business (SDB) Certification Program.

November 16th – The Lynchburg Regional SBDC is sponsoring a seminar on the HUBZone Program, SDB Certification, and 8(a) Business Development Program.

December 9th – The Tidewater Regional Minority Purchasing Council and the City of Norfolk are teaming up to provide Procurement Training and on-site HUBZone Program certification.

FOR MORE INFORMATION ON THESE EVENTS CONTACT T. J. PROFFITT AT (804) 771-2400 EXT. 121

THE SOURCE

The Lender Perspective
By Lorraine Dismond
Lead Loan Specialist, ED

eginning in fiscal year 2000 the SBA will implement the first three-year cycle of reviewing all participating lenders. The purpose of the reviews is to educate and work with lenders to address performance issues. This new review system mandates that a lender with generally moderate loan activity will receive only one review per 3-year cycle unless they are a PLP/PLCP lender. (PLP/PLCP lenders are required to be reviewed on an annual basis).

Lenders will be reviewed at their centralized processing or servicing centers or at the corporate headquarters. Multi-branch lenders that extend SBA lending decisions to each branch will be evaluated at their branch headquarters. The field office that covers the location of the lenders corporate headquarters or processing center will be the primary district office responsible for conducting the lender review.

Before a review is scheduled you will be contacted to ensure a mutually agreeable date. You will also receive a list of loans to be reviewed prior to the scheduled review.

The review of the files will be done using a checklist of "Lender Review Elements." These checklist can be found in the "Oversight Guide", pages A-30-lxxxi through A30-lxxxvi. The guide can be downloaded from our website at the following address: www.sba.gov/banking. Lenders who do not have the capability to access the website may call us at 804-771-2400, extension 129 to request a copy of the checklist. *Urge all lenders to review these elements and become familiar with them so that you will be adequately prepared for the review.*

At the conclusion, an exit interview will be held with you, the lender. You will also be mailed a complete written report including a summary and recommendations.

The Source is continued on next page.

Asset Sale At A Glance

The Source (continued)

The SBA announced in August the highly successful initial sale of SBA loans to the private sector. Bids were received for this first sale on August 17, 1999, and closings occurred in September 1999. SBA is identifying loans for the second sale at this time, and the sale is scheduled to closed mid calendar year 2000.

SBA intends to include as many Section 7(a) loans in an upcoming sale as possible. The SBA will send two notifications to lenders that own a portion of Section 7(a) loans targeted for sale. The first notification will identify SBA serviced loans, and the second notification will identify lender-serviced loans.

The notification letters will identify all loans in which that lender owns a portion and will provide a deadline by which the lender must send a signed agreement to SBA to authorize sale of the entire loan, including the lender's portion.

To obtain more in-depth information on the SBA Asset sale initiative you may visit our Asset Sale website at the following address: www.sba.gov/assets.

“Give not unto others the advice you do not heed yourself” –Allen Koch

REMINDER

We have noticed that some lenders are not reporting all of their loans on the monthly 1502 report.

Please remember that every SBA loan in your institution's portfolio with an outstanding SBA guaranty (i.e., secondary market loan, unsold loan subject to SBA's fee or unsold loan not subject to SBA's fee) requires at least one line entry on the SBA Form 1502 each reporting period. The reporting period includes the first calendar day of the month through the last calendar day of the month.

Highlights of SBA's Environmental Policy

Each 7(a) and 504 loan Authorization requires that the participating lender or the CDC conduct an Environmental Investigation for loans over \$25,000.00 which involve commercial property. The investigation is conducted for commercial property that is either acquired or improved with the loan proceeds or commercial property that represents over 50% of the value of all the collateral securing the loan. The results of the Investigation must be submitted to the SBA field office for SBA approval prior to disbursement of the loan. An adverse environmental finding could lead to the cancellation of SBA's guaranty. This article gives a brief summary of the different methods used in conducting the Environmental Investigation, and when to use each method.

The Environmental Investigation is conducted using one or more of the following: an Environmental Questionnaire; Transactional Screen Analysis (TSA), A Phase I Audit or a Phase II Audit. The location and historical use of the property will assist the lender or CDC in determining which method of Environmental Investigation is appropriate. Additionally, if the Investigation was not originally conducted for the benefit of the Lender, CDC or SBA, then the report must be re-assigned by the environmental consulting firm to allow the SBA and the CDC or Lender to rely on it.

An Environmental Questionnaire is a form that the lender or CDC fills out after viewing the property and conducting an interview with the current owner or operator of the site. Both the lender or CDC and the owner

or operator of the site must sign the questionnaire. The lender can use its own form if it contains all of the questions of SBA's form. This is the minimum level of Environmental Investigation and among other conditions cited in SOP 50-10(4)(B)(7)(d), this questionnaire is used when the lender or CDC has a “reasonable and prudent belief that there is no risk of contamination”. A “reasonable and prudent belief that there is no risk of contamination” means that using prudent lending standards and based upon existing information there is a determination that past business or agricultural operations at the primary collateral site or on adjacent sites are unlikely to have resulted in contamination at the site.

A Transactional Screen Analysis is a written report which includes a visual inspection of the site by a person trained to determine whether the conditions at the site could pose environmental problems, a completion of the environmental questionnaire, an environmental record review and a recommendation from the lender or the environmental consulting firm that the risk of contamination is so minimal that no further investigation is warranted or that further investigation is necessary. This type of Investigation is used when the lender or CDC cannot conclude that there is a “reasonable and prudent belief that there is no risk of contamination”, but there is no other evidence which supports probable contamination.

A Phase I Audit is an investigation and written report by an environmental professional or contractor regarding the history and

use of the property. A Phase I is required when a lender or a CDC has a reasonable belief that there may be environmental contamination on the property. The report should contain: a visual inspection of the property and adjacent properties; an environmental record review; an interview with the current owner or operator of the site or if necessary, the previous owner or operator of the site or an adjacent property owner or operator. The report must also contain a conclusion by the contractor that performs the audit that the risk of contamination is so minimal that no further investigation is warranted or that further investigation is necessary.

A Phase II Audit is an investigation and written report by an environmental professional involving testing for actual contamination which relies on laboratory testing of samples extracted from potentially contaminated locations to determine whether and to what extent actual contamination exists. This method of Investigation is required when the Phase I shows more than a minimal risk of environmental contamination on the property.

To conclude, this summary is to serve only as a cursory outline of SBA's Environmental Investigation Authorization Requirements, and it should not be used as a lender or CDC's only guideline. For more details, please contact Dawn DiBenedetto (804) 771-2400 x. 144 or Lucy Davis at (804) 771-2400 x. 145.

RELIEF is here! SBA's Income Tax Verification Procedures revised to address delays

The SBA is working with the Internal Revenue Service (IRS) to streamline and expedite the tax verification process but, in some instances, we are continuing to experience delays in receiving IRS tax transcripts. We are therefore revising SBA's tax verification policy to address situations where delays may develop.

The IRS has committed to respond to SBA-related tax requests within 10 business days, and in most instances achieves that target. However, due to varying workloads and resource constraints, there are occasions when IRS does not meet that timeframe. Therefore, **if a lender does not receive a response or copy of the tax transcript within 10 business days, and the loan is ready for closing, the lender may proceed to close and disburse the loan without the IRS data.** (If the loan is not ready for closing, the lender must follow-up

with the IRS as described below.)

If the loan is disbursed, the lender must continue to follow-up with the IRS to obtain and verify the tax data. The lender must resubmit a copy of the Form 4506 to the IRS with the notation "Second Request" in the top right hand corner and must document the loan file with a dated copy of the second transmittal to the IRS. If there are continuing problems securing tax information, the lender should contact the appropriate SBA office, or Ned Nazzaro at (202) 205-7187, via email at Ned.Nazzaro@sba.gov, or by fax at (202) 205-0617.

For the expedited SBAExpress or Community Express loan programs, the lender is authorized to proceed to loan closing and disbursement without waiting for the expiration of the first 10-day period, but the lender must follow-up and secure and verify the IRS tax data and document the loan file.

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P. O. Box 10126
Richmond, VA 23240

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WE'RE ON THE WEB!

<http://www.sba.gov/regions/states/va/>